

**MALVERN  
COMMUNITY SCHOOL DISTRICT**

INDEPENDENT AUDITOR'S REPORT  
BASIC FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS

JUNE 30, 2006

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**MALVERN COMMUNITY SCHOOL DISTRICT**

**OFFICIALS**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
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**BOARD OF EDUCATION**

(Before September, 2005 Election)

Debra Lefevre	President	2005
Susan Stogdill	Vice President	2006
Deanne Mulholland		2005
Dale Stephens		2007
Gary Hustak		2005

(After September, 2005 Election)

Susan Stogdill	President	2006
Dale Stephens	Vice President	2007
Brenda Koger		2006
Becky Bell		2008
Gary Hustak		2008

**SCHOOL OFFICIALS**

Curtis Barclay	Superintendent
Sue Davis	District Secretary
Darla Hetzel	District Treasurer

## Independent Auditor's Report

To The Board of Education of the  
Malvern Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Malvern Community School District, Malvern, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Malvern Community School District as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated September 28, 2006 on our consideration of Malvern Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 11 and 29 through 31 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Malvern Community School District's basic financial statements. We previously audited in accordance with the standards referred to in the second paragraph of this report. The financial statements for the three years ended June 30, 2005 (none of which are presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 5, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information, has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

**BRUCE D. FRINK**  
**Certified Public Accountant**

September 28, 2006

## **MALVERN COMMUNITY SCHOOL DISTRICT**

### **Management's Discussion and Analysis**

Malvern Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2006. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

#### **2006 FINANCIAL HIGHLIGHTS**

- General Fund revenues increased from \$2,929,891 in fiscal 2005 to \$3,137,672 in fiscal 2006, while General Fund expenditures increased from \$3,108,063 in fiscal year 2005 to \$3,163,135 in fiscal 2006. The District's General Fund balance decreased from \$429,987 in fiscal 2005 to \$404,524 in fiscal 2006, a 6% decrease.
- State and federal revenues increased from fiscal 2005 to fiscal 2006. A major factor was medicaid claims that also accounted for increased expenses.
- Enrollment decreased by 6.6 resident students and 23.9 students actually attending classes in the district.
- The District's solvency ratio was 13% at the end of fiscal 2006. The solvency ratio is indicative of the District's ability to meet its financial obligations. This is a decrease of 2% from the prior year. Recommended solvency ratio is commonly around 10%.
- The District is a recipient of the Reading First Program Grant (a Federal Grant) for the period June 1, 2003 through June 30, 2006. Approximately \$37,663 will be allotted to fund Reading First Programs each of those years.
- SILO or Local Option Sales Tax was voted into Mills County in October 2003. These dollars can only be used for infrastructure projects. A total of \$222,260 was on hand at June 30, 2006.

#### **OVERVIEW OF THE FINANCIAL STATEMENTS**

This annual report consists of three parts: management's discussion and analysis (this section), the financial statements and required supplementary information.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

*Figure A-1*  
*Malvern Community School District*

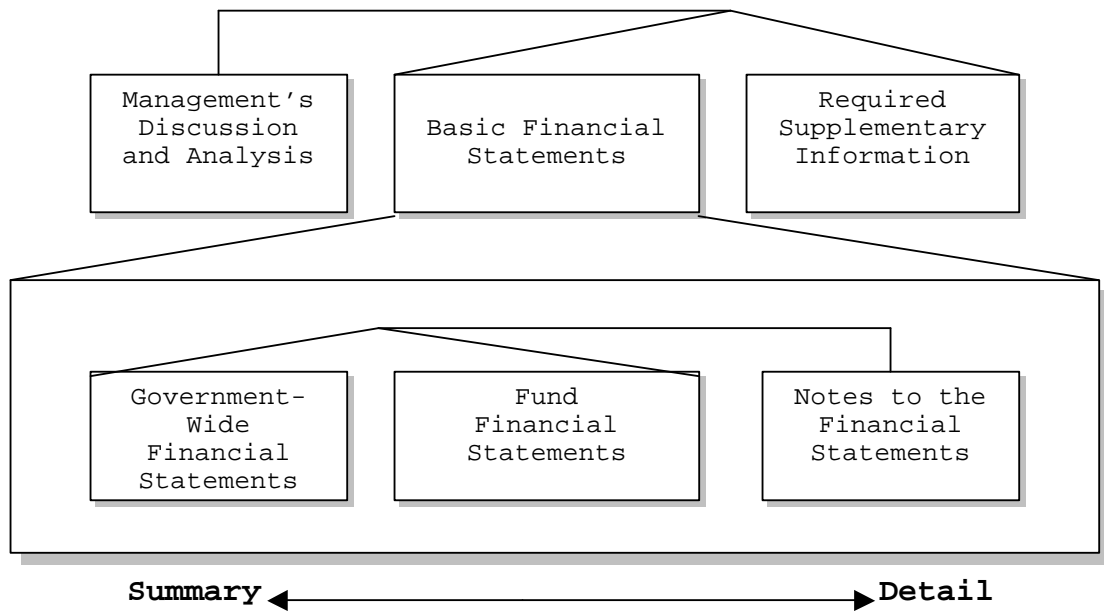


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain the remainder of this overview section of the management discussion and analysis highlights the structure and contents of each of the statements.

<b>Figure A-2</b> <b>Major Features of the Government-wide and Fund Financial Statements</b>			
	Government-wide Statements	Fund Financial Statements	
		Governmental Funds	Proprietary Funds
Scope	Entire district	The activities of the district that are not proprietary, such as special education and building maintenance	Activities the district operates similar to private businesses, such as food service
Required financial statements	<ul style="list-style-type: none"> <li>. Statement of Net Assets</li> <li>. Statement of Activities</li> </ul>	<ul style="list-style-type: none"> <li>. Balance sheet</li> <li>. Statement of Revenues, Expenditures, and Changes in Fund Balances</li> </ul>	<ul style="list-style-type: none"> <li>. Statement of Net Assets</li> <li>. Statement of Revenues, Expenses and Changes in Net Assets</li> <li>. Statement of Cash Flows</li> </ul>
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due and payable	All revenues and expenses during the year, regardless of when cash is received or paid



## REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

### *Government-wide Financial Statements*

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets - the difference between the District's assets and liabilities - are one way to measure the District's financial health or financial position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- **Governmental activities:** Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- **Business type activities:** The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

### *Fund Financial Statements*

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds - not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has three kinds of funds:

- 1) **Governmental funds:** Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds, and Debt Service Fund. Most of the District's basic services are included here, such as regular education, special education, building and grounds maintenance, transportation, and administration. Most of these activities are funded with property taxes and state aid finance.

- 2) **Proprietary funds:** Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's Enterprise Funds, one type of proprietary fund, are the same as its business type activities but provide more detail and additional information, such as cash flows. The District currently has one Enterprise Fund, the School Nutrition Fund.

3) *Fiduciary funds*: The District is the trustee, or fiduciary, for assets that belong to others. These funds include Private-Purpose Trusts.

- Private-Purpose Trust Fund - The District accounts for outside donations for scholarships for individual students in this fund.
- Agency Funds - The District holds money for outside groups in a custodial capacity.

The District is responsible for ensuring the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the government-wide financial statements because it cannot use these assets to finance its operations.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets for the year ended June 30, 2006 compared to June 30, 2005.

Figure A-3  
Condensed Statement of Net Assets  
(expressed in thousands)

	Governmental		Business-type		Total		Percentage
	Activities		Activities		School District		Change
	June 30,		June 30,		June 30,		June 30,
	2006	2005	2006	2005	2006	2005	2005-2006
	\$	\$	\$	\$	\$	\$	
Current assets	2,480	2,389	7	25	2,487	2,414	3.02%
Capital assets	917	710	4	4	921	714	28.99%
<b>Total assets</b>	<u>3,397</u>	<u>3,099</u>	<u>11</u>	<u>29</u>	<u>3,408</u>	<u>3,128</u>	<u>8.95%</u>
Current liabilities	1,580	1,347	-	5	1,580	1,352	16.86%
Non-current liabilities	86	128	-	-	86	128	0.00%
<b>Total liabilities</b>	<u>1,666</u>	<u>1,475</u>	<u>-</u>	<u>5</u>	<u>1,666</u>	<u>1,480</u>	<u>12.57%</u>
Net Assets							
Invested in capital assets, net of related debt	831	710	4	4	835	714	16.95%
Restricted	402	384	-	-	402	384	4.69%
Unrestricted	498	530	7	20	505	550	-8.18%
<b>Total net assets</b>	<u>1,731</u>	<u>1,624</u>	<u>11</u>	<u>24</u>	<u>1,742</u>	<u>1,648</u>	<u>5.70%</u>

Unrestricted net assets decreased by 8% due to a decrease in the General Fund. Capital assets increased by 6% as the District purchased a number of capital assets including playground equipment and several vehicles.

Changes in net assets - figure A-4 shows the changes in net assets for the year ended June 30, 2006 and 2005.

**Figure A-4**  
**Change in Net Assets**  
**(Expressed in Thousands)**

	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total School District</b>		<b>Total Change</b>
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>	<b>2005-06</b>
	\$	\$	\$	\$	\$	\$	%
Revenues:							
Program revenues:							
Charges for service and sales	136	214	78	74	214	288	-25.69%
Operating grants, contributions and restricted interest	750	615	74	70	824	685	20.29%
General revenues:							
Property tax	1,026	1,021	-	-	1,026	1,021	0.49%
Income surtax	80	142	-	-	80	142	-43.66%
Local option sales tax	268	100	-	-	268	100	168.00%
Unrestricted state grants	1,394	1,296	-	-	1,394	1,296	7.56%
Unrestricted investment earnings	11	9	-	-	11	9	22.22%
Other	34	5	-	-	34	5	580.00%
Total revenues	<u>3,699</u>	<u>3,402</u>	<u>152</u>	<u>144</u>	<u>3,851</u>	<u>3,546</u>	<u>8.60%</u>
Program expenses:							
Governmental activities:							
Instruction	2,128	2,234	-	-	2,128	2,234	-4.74%
Support Services	869	901	-	-	869	901	-3.55%
Non-instructional programs	-	-	165	152	165	152	8.55%
Other expenses	595	218	-	-	595	218	172.94%
Total expenses	<u>3,592</u>	<u>3,353</u>	<u>165</u>	<u>152</u>	<u>3,757</u>	<u>3,505</u>	<u>7.19%</u>
Change in net assets	<u>107</u>	<u>49</u>	<u>(13)</u>	<u>(8)</u>	<u>94</u>	<u>41</u>	<u>129.27%</u>

Property tax and unrestricted state grants account for 63% of the total revenue. The District's expenses primarily related to instruction and support services, which account for 80% of the total expenses.

## Governmental Activities

Revenues for governmental activities were \$3,699,743 and expenses were \$3,592,426.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services and other expenses.

**Figure A-5**  
**Total and Net Cost of Governmental Activities**  
**(Expressed in Thousands)**

	Total Cost of Services		Net Cost of Services		Net Change
	2006	2005	2006	2005	2005-06
	\$	\$	\$	\$	
Instruction	2,128	2,234	1,387	1,523	-8.93%
Support Services	869	901	835	892	-6.39%
Other expenses	<u>595</u>	<u>218</u>	<u>484</u>	<u>109</u>	<u>344.04%</u>
Totals	<u>3,592</u>	<u>3,353</u>	<u>2,706</u>	<u>2,524</u>	<u>7.21%</u>

- The cost financed by users of the District's programs was \$136,444.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$549,528.
- The net cost of governmental activities was financed with \$1,026,945 in property tax, \$1,393,977 in state foundation aid, and \$11,031 in interest income.

## Proprietary-Type Funds

Revenues for the District's School Nutrition Fund were \$152,112 and expenses were \$165,467. The revenues include charges for services, contributions, and federal and state reimbursements.

## FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The Malvern Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed the fiscal year, its governmental funds reported a combined fund balance of \$1,731,536, which is 7% greater than last year's ending fund balance of \$1,624,219.

## GOVERNMENTAL FUND HIGHLIGHTS

Several factors contributed to the increase in the fund balance in the District's governmental funds. Some of these factors were unexpected; some were deliberately planned.

- A prior year enrollment increase brought additional state foundation aid to the District.
- Property tax revenues held steady from the prior year.
- The District's revenues from Federal sources increased due to the Rural Education Achievement Program and medicaid claims.
- The school infrastructure sales began to be collected in January, 2004. This will aid the school in future infrastructure projects.

## **Proprietary Fund Highlights**

School Nutrition Fund net assets decreased over \$13,000 in Fiscal 2006.

## **BUDGETARY HIGHLIGHTS**

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The budget may be amended during the year utilizing similar statutorily prescribed procedures.

It is the District's practice, as is in most Iowa school district, to budget expenditures at or about the maximum authorized spending. As a result, the District's certified budget should always exceed the actual expenditures for the year.

Actual revenue exceeded budgeted amounts primarily due to increases in tuition income and federal grant activity.

## **CAPITAL ASSETS**

The District has invested more than \$2.7 million by the end of fiscal year 2006 in a broad range of capital assets, including school buildings, athletic facilities, kitchen, computers and audio-visual equipment, maintenance equipment, school buses and other vehicles, library holdings, and textbooks. The District made improvements and updated equipment at all facilities during the year. Total depreciation expenses for the year exceeded \$123,000.

## **LONG-TERM DEBT**

In 2005, the District borrowed \$127,770 for the purpose of constructing a new playground. This will be repaid over 3 years from the Physical Plant and Equipment Levy in equal principal payments of \$42,590 plus applicable interest.

## **FACTORS BEARING ON THE DISTRICT'S FUTURE**

At the time these financial statements were prepared and audited, the District was aware of existing circumstances that could significantly affect its financial health in the future:

- The District will need to monitor payroll expenses as they account for the vast majority of the budget.
- Alternative sources must be found due to funding inconsistencies on the parts of the federal and state governments.
- The District will continue to be required to comply with unfunded and under funded mandates from the federal and state governments such as the Federal No Child Left Behind Act and the state Student Achievement and Teacher Quality Initiative. This will require the District to find ways to provide services in the areas of assessment and professional development, which will divert funds from other student service areas.
- Enrollment increases and decreases will play a large part in determining the District's finances on an year to year basis. The legislature needs to ensure adequate allowable growth to properly fund education.
- The District has entered into a sharing agreement with the Nishna Valley Community School District.

## **CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Darla Hetzel, District Business Manager, Malvern Community School District, 1505 East 15<sup>th</sup> St, Malvern, IA 51551.

## Basic Financial Statements

## MALVERN COMMUNITY SCHOOL DISTRICT

## Statement of Net Assets

June 30, 2006

	Governmental Activities	Business Type Activities	Total
	\$	\$	\$
<b>Assets</b>			
Cash and pooled investments	859,229	5,535	864,764
Receivables:			
Property tax:			
Current year	24,345	-	24,345
Succeeding year	1,271,683	-	1,271,683
Income surtax - succeeding year	66,113	-	66,113
Due from other governments	247,486	-	247,486
Accrued interest receivable	-	-	-
Other receivables	11,795	-	11,795
Inventories	-	1,027	1,027
Prepaid expenses	-	-	-
Capital assets, net of accumulated depreciation	916,776	4,236	921,012
<b>Total assets</b>	<b>3,397,427</b>	<b>10,798</b>	<b>3,408,225</b>
<b>Liabilities</b>			
Accounts payable	39,517	-	39,517
Accrued payroll and benefits	269,511	-	269,511
Deferred revenue:			
Succeeding year property tax	1,271,683	-	1,271,683
Long-term liabilities:			
Capital loan notes - current portion	42,590	-	42,590
Capital loan notes - long-term	42,590	-	42,590
<b>Total liabilities</b>	<b>1,665,891</b>	<b>-</b>	<b>1,580,711</b>
<b>Net assets</b>			
Invested in capital assets, net of related debt	831,596	4,236	835,832
Restricted for:			
Management levy	117,957	-	117,957
Physical plant and equipment levy	61,908	-	61,908
Capital projects	222,260	-	222,260
Unrestricted	497,815	6,562	504,377
<b>Total net assets</b>	<b>1,731,536</b>	<b>10,798</b>	<b>1,742,334</b>

See notes to financial statements.



## MALVERN COMMUNITY SCHOOL DISTRICT

## Statement of Activities

Year ended June 30, 2006

	Program Revenues					Total
	Expenses	Charges for Service	Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	
	\$	\$	\$	\$	\$	\$
<b>Functions/Programs</b>						
Governmental activities:						
Instruction:	2,127,764	136,444	604,088	(1,387,232)	-	(1,387,232)
Support services:						
Student services	68,597	-	-	(68,597)	-	(68,597)
Instructional staff services	65,082	-	-	(65,082)	-	(65,082)
Administration services	407,527	-	-	(407,527)	-	(407,527)
Operation and maintenance of plant services	194,725	-	19,165	(175,560)	-	(175,560)
Transportation services	133,355	-	15,287	(118,068)	-	(118,068)
	869,286	-	34,452	(834,834)	-	(834,834)
Other expenditures:						
AEA flowthrough	111,172	-	111,172	-	-	-
Long term debt interest	5,248	-	-	(5,248)	-	(5,248)
Facilities acquisition and construction	357,089	-	-	(357,089)	-	(357,089)
Depreciation (unallocated)*	121,867	-	-	(121,867)	-	(121,867)
	595,376	-	111,172	(484,204)	-	(484,204)
Total governmental activities	3,592,426	136,444	749,712	(2,706,270)	-	(2,706,270)

MALVERN COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2006

	Program Revenues					Total
	Expenses	Charges for Service	Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	
	\$	\$	\$	\$	\$	\$
Business type activities:						
Non-instructional programs:						
Nutrition services	165,467	77,792	74,320	-	(13,355)	(13,355)
Total	<u>3,757,893</u>	<u>214,236</u>	<u>824,032</u>	<u>(2,706,270)</u>	<u>(13,355)</u>	<u>(2,719,625)</u>
General revenues:						
Property tax levied for:						
General purposes				901,251	-	901,251
Management levy				54,564	-	54,564
Capital outlay				70,860	-	70,860
Income surtax				79,837	-	79,837
Local option sales taxes				267,714	-	267,714
Unrestricted state grants				1,393,977	-	1,393,977
Unrestricted investment earnings				11,031	-	11,031
Other				34,353	-	34,353
Total general revenue				<u>2,813,587</u>	<u>-</u>	<u>2,813,587</u>
Change in net assets				107,317	(13,355)	93,962
Net assets beginning of year				<u>1,624,219</u>	<u>24,153</u>	<u>1,648,372</u>
Net assets end of year				<u>1,731,536</u>	<u>10,798</u>	<u>1,742,334</u>

\* This amount excludes the depreciation that is included in the direct expenses of the various programs.

See notes to financial statements.

## MALVERN COMMUNITY SCHOOL DISTRICT

Balance Sheet  
Governmental Funds

June 30, 2006

	General	Physical Plant and Equipment Levy	Capital Projects	Nonmajor Special Revenue	Total
	\$	\$	\$	\$	\$
<b>Assets</b>					
Cash and pooled investments	496,741	92,622	125,893	143,973	859,229
Receivables:					
Property tax:					
Current year	21,373	1,686	-	1,286	24,345
Succeeding year	1,127,421	89,262	-	55,000	1,271,683
Income surtax - succeeding year	-	66,113	-	-	66,113
Due from other governments	151,119	-	96,367	-	247,486
Accrued interest receivable	-	-	-	-	-
Other receivables	11,735	-	-	60	11,795
Prepaid expenses	-	-	-	-	-
<b>Total assets</b>	<u>1,808,389</u>	<u>249,683</u>	<u>222,260</u>	<u>200,319</u>	<u>2,480,651</u>
<b>Liabilities and Fund Balance</b>					
Liabilities:					
Accounts payable	6,933	32,400	-	184	39,517
Accrued payroll and benefits	269,511	-	-	-	269,511
Deferred revenue:					
Succeeding year property tax	1,127,421	89,262	-	55,000	1,271,683
Succeeding year income surtax	-	66,113	-	-	66,113
Total liabilities	<u>1,403,865</u>	<u>187,775</u>	<u>-</u>	<u>55,184</u>	<u>1,646,824</u>
Fund balances:					
Reserved for capital projects	-	-	222,260	-	222,260
Unreserved	<u>404,524</u>	<u>61,908</u>	<u>-</u>	<u>145,135</u>	<u>611,567</u>
Total fund balances	<u>404,524</u>	<u>61,908</u>	<u>222,260</u>	<u>145,135</u>	<u>833,827</u>
<b>Total liabilities and fund balances</b>	<u>1,808,389</u>	<u>249,683</u>	<u>222,260</u>	<u>200,319</u>	<u>2,480,651</u>

See notes to financial statements.

## MALVERN COMMUNITY SCHOOL DISTRICT

Reconciliation of the Balance Sheet - Governmental Funds  
to the Statement of Net Assets

June 30, 2006

<b>Total fund balances of governmental funds (Exhibit C)</b>	\$ 833,827
<b>Amounts reported for governmental activities in the statement of net assets are different because:</b>	
Income surtax receivable at June 30, 2006 is not recognized as income until received in the governmental funds, however it is shown as a receivable in the Statement of Net Assets.	66,113
Capital assets used in governmental activities are not assets in the governmental funds.	916,776
Long-term liabilities, including bonds payable and capital loan notes payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	
Capital loan notes	<u>(85,180)</u>
<b>Net assets of governmental activities (Exhibit A)</b>	<u><u>\$ 1,731,536</u></u>

See notes to financial statements.

## MALVERN COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Fund Types

Year ended June 30, 2006

	General	Physical Plant and Equipment Levy	Debt Service	Capital Projects	Nonmajor Special Revenue	Total
	\$	\$	\$	\$	\$	\$
Revenues:						
Local sources:						
Local tax	901,251	152,584	-	267,714	54,564	1,376,113
Tuition	136,444	-	-	-	-	136,444
Other	45,384	9,458	-	188	79,366	134,396
State sources	1,746,323	48	-	-	36	1,746,407
Federal sources	308,270	-	-	-	-	308,270
Total revenues	<u>3,137,672</u>	<u>162,090</u>	<u>-</u>	<u>267,902</u>	<u>133,966</u>	<u>3,701,630</u>
Expenditures:						
Current:						
Instruction:	<u>2,049,889</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>77,875</u>	<u>2,127,764</u>
Support services:						
Student services	68,597	-	-	-	-	68,597
Instructional staff services	75,812	-	-	43,424	-	119,236
Administration services	407,527	-	-	-	-	407,527
Operation and maintenance of plant services	280,738	-	-	-	49,309	330,047
Transportation services	169,400	36,433	-	-	796	206,629
	<u>1,002,074</u>	<u>36,433</u>	<u>-</u>	<u>43,424</u>	<u>50,105</u>	<u>1,132,036</u>

MALVERN COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Fund Types

Year ended June 30, 2006

	General	Physical Plant and Equipment Levy	Debt Service	Capital Projects	Nonmajor Special Revenue	Total
	\$	\$	\$	\$	\$	\$
Other expenditures:						
AEA flowthrough	111,172	-	-	-	-	111,172
Long term debt principal	-	-	42,590	-	-	42,590
Long term debt interest	-	-	5,248	-	-	5,248
Facilities acquisition and construction	-	293,947	-	129,176	-	423,123
	<u>111,172</u>	<u>293,947</u>	<u>47,838</u>	<u>129,176</u>	<u>-</u>	<u>582,133</u>
Total expenditures	<u>3,163,135</u>	<u>330,380</u>	<u>47,838</u>	<u>172,600</u>	<u>127,980</u>	<u>3,841,933</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(25,463)</u>	<u>(168,290)</u>	<u>(47,838)</u>	<u>95,302</u>	<u>5,986</u>	<u>(140,303)</u>
Other financing sources:						
Operating transfer in	-	-	47,838	-	-	47,838
Operating transfer (out)	-	(47,838)	-	-	-	(47,838)
	<u>-</u>	<u>(47,838)</u>	<u>47,838</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	(25,463)	(216,128)	-	95,302	5,986	(140,303)
Fund balances beginning of year	<u>429,987</u>	<u>278,036</u>	<u>-</u>	<u>126,958</u>	<u>139,149</u>	<u>974,130</u>
Fund balances end of year	<u>404,524</u>	<u>61,908</u>	<u>-</u>	<u>222,260</u>	<u>145,135</u>	<u>833,827</u>

See notes to financial statements.

## MALVERN COMMUNITY SCHOOL DISTRICT

Reconciliation of the Statement of Revenues, Expenditures and  
Changes in Fund Balances - Governmental Funds  
to the Statement of Activities

Year ended June 30, 2006

Net change in fund balances - total governmental funds (Exhibit E) \$ (140,303)

Amounts reported for governmental activities in the  
statement of activities are different because:

Income surtax receivable at June 30, 2006 is not recognized as income until received in the governmental funds, however it is shown as a revenue in the Statement of Activities. (1,887)

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of depreciation expense in the year are as follows:

Capital outlays	328,784
Depreciation expense	(121,867)

Repayments of long-term liabilities use current financial resources to governmental funds, but repaying debt decreases long-term liabilities in the Statement of Net Assets.

Repayment of capital loan notes	42,590
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Change in net assets of governmental activities (Exhibit B)	\$ 107,317
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## MALVERN COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenses and Changes in Net Assets  
Proprietary Fund

Year ended June 30, 2006

	School Nutrition
	<u>\$</u>
Operating revenue:	
Local sources:	
Charges for services	<u>77,792</u>
Operating expenses:	
Non-instructional programs:	
Food service operations:	
Salaries	53,697
Benefits	12,286
Services	3,656
Supplies	94,414
Depreciation	<u>1,414</u>
Total operating expenses	<u>165,467</u>
Operating (loss)	<u>(87,675)</u>
Non-operating revenues:	
State sources	1,933
Federal sources	72,231
Interest income	<u>156</u>
	<u>74,320</u>
Changes in net assets	(13,355)
Net assets beginning of year	<u>24,153</u>
Net assets end of year	<u><u>10,798</u></u>

See notes to financial statements.



## MALVERN COMMUNITY SCHOOL DISTRICT

Statement of Cash Flows  
Proprietary Fund

Year ended June 30, 2006

	School Nutrition
	\$
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	77,792
Cash payments to employees for services	(70,655)
Cash payments to suppliers for goods or services	(68,995)
Net cash (used in) operating activities	<u>(61,858)</u>
Cash flows from non-capital financing activities:	
State grants received	1,933
Federal grants received	54,455
Net cash provided by non-capital financing activities	<u>56,388</u>
Cash flows from capital financing activities:	
Acquisition of capital assets	(1,461)
Cash flows from investing activities:	
Interest on investments	<u>156</u>
Net increase in cash and cash equivalents	(6,775)
Cash and cash equivalents beginning of year	<u>12,310</u>
Cash and cash equivalents end of year	<u><u>5,535</u></u>
<b>Reconciliation of operating income (loss) to net cash used in operating activities:</b>	
Operating (loss)	(87,675)
Adjustments to reconcile operating profit (loss) to net cash provided by (used in) operating activities:	
Depreciation	1,414
Commodities used	17,776
Decrease in inventory	11,299
(Decrease) in accrued payroll and benefits	(4,672)
	<u>(61,858)</u>
<b>Reconciliation of cash and cash equivalents at year end to specific assets included on Combined Balance Sheet:</b>	
Current assets:	
Cash	<u><u>5,535</u></u>

**Non-cash investing, capital and financing activities:**

During the year ended June 30, 2006, the District received federal commodities valued at \$17,776.

See notes to financial statements.

## MALVERN COMMUNITY SCHOOL DISTRICT

Statement of Fiduciary Net Assets  
Fiduciary Funds

Year ended June 30, 2006

	Private Purpose Trusts	Agency Funds
	Chantry Bequest	
	\$	\$
<b>Assets</b>		
Cash and pooled investments	2,521	12,602
<b>Liabilities</b>		
Other payables	-	12,602
<b>Net Assets</b>		
Reserved for special purposes	2,521	-

See notes to financial statements.

MALVERN COMMUNITY SCHOOL DISTRICT

Statement of Changes in Fiduciary Net Assets  
Fiduciary Funds

Year ended June 30, 2006

	Private Purpose Trusts
	Chantry Bequest
	\$
Additions:	
Local sources:	
Miscellaneous	19
Total additions	19
Deductions:	
Support services:	
Scholarships	-
Total deductions	-
Change in net assets	19
Net assets beginning of year	2,502
Net assets end of year	2,521

See notes to financial statements.

# MALVERN COMMUNITY SCHOOL DISTRICT

## Notes to Financial Statements

June 30, 2006

### (1) Summary of Significant Accounting Policies

Malvern Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. Additionally, the District either operates or sponsors summer recreational activities. The geographic area served includes the City of Malvern, Iowa, and agricultural area in Mills County. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

#### A. Reporting Entity

For financial reporting purposes, Malvern Community School District has included all funds, organizations, account groups, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the District. Malvern Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Mills County Assessor Conference Board.

#### B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

*Invested in capital assets*, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt that are attributable to the acquisition, construction, or improvement of those assets.

*Restricted net assets* result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net assets* consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental proprietary and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Physical Plant and Equipment Levy is used to account for the purchase of equipment and the repairing, remodeling and construction of buildings and land improvements.

The Debt Service Fund is utilized to account for the payment of interest and principal on the District's general long-term debt.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The District reports the following major proprietary fund:

The District's proprietary fund is the Enterprise, School Nutrition Fund. This fund is used to account for the food service operations of the District.

The District also reports fiduciary funds which focus on net assets and changes in net assets. the District's fiduciary funds include the following:

The Private Purpose Trust Fund is used to account for assets held by the District under trust agreements which require income earned to be used for scholarship payments.

The Agency Fund is used to account for assets held by the District as an agent for individuals, private organizations and other governments. The Agency Fund is custodial in nature, assets equal liabilities, and does not involve measurement of results of operations.

### C. Measurement Focus and Basis of Accounting

The government-wide and the proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected with 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financial sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statement of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

#### D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the financial statements:

Cash, Investments and Cash Equivalents - The cash balances of most District funds are invested. Investments are stated at fair value except for non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking the budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2004 assessed property valuations; is for the tax accrual period July 1, 2005 through June 30, 2006 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2005.

Due From Other Governments - Due from other governments represents amounts due from the State of Iowa and grants from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and for government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, furniture and equipment, are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

<u>Asset Class</u>	<u>Amount</u>
Land	\$ 1,000
Buildings	10,000
Improvements other than buildings	10,000
Furniture and equipment:	
School Nutrition Fund equipment	10,000
Other furniture and equipment	10,000

Capital assets are depreciated using the straight line method of depreciation over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives (In Years)</u>
Buildings	50 years
Improvements other than buildings	20-50 years
Furniture and equipment	5-15 years

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collectible within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Compensated Absences - District employees accumulated a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees that have resigned or retired. The compensated absences liability is deemed to be immaterial at June 30, 2006.

Fund Balance - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

#### E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. Expenditures exceeded the amount budgeted in the other expenditures function.

### (2) **Cash and Investments**

The District's deposits in banks at June 30, 2006 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The District had no investments at June 30, 2006.

### (3) **Capital Assets**

Capital assets activity for the year ended June 30, 2006 was as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
<b>Governmental activities:</b>				
Capital assets not being depreciated:				
Land	\$ 30,000	-	-	30,000
Capital assets being depreciated:				
Land improvements	126,186	130,330	-	256,516
Buildings	1,425,953	-	-	1,425,953
Furniture and equipment	818,767	198,454	-	1,017,221
Total capital assets being depreciated	2,370,906	328,784	-	2,699,690
Less accumulated depreciation for:				
Land improvements	88,168	7,681	-	95,849
Buildings	890,054	28,519	-	918,573
Furniture and equipment	712,825	85,667	-	798,492
Total accumulated depreciation	1,691,047	121,867	-	1,812,914
Total capital assets being depreciated, net	679,859	206,917	-	886,776
Governmental activities, capital assets, net	\$ 709,859	206,917	-	916,776



	Balance Beginning of Year	Increases	Decreases	Balance End of Year
<b>Business type activities:</b>				
Furniture and equipment	15,512	1,461	-	16,973
Less accumulated depreciation	<u>11,323</u>	<u>1,414</u>	<u>-</u>	<u>12,737</u>
Business type activities capital assets, net	<u>\$ 4,189</u>	<u>47</u>	<u>-</u>	<u>4,236</u>

Depreciation expense was charged to the following functions:

Governmental activities:

Unallocated \$ 121,867

Business Type activities:

Food service operations \$ 1,414

#### (4) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, PO Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual payroll. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2006, 2005, and 2004 were \$100,604, \$98,687, and \$96,770 respectively, equal to the required contributions for each year.

#### (5) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$111,172 for the year ended June 30, 2006 and is recorded in the General Fund by making a memorandum adjusting entry to the financial statements.

#### (6) Risk Management

Malvern Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

#### (7) Long Term Debt/Commitments

In June 2005 the District borrowed \$127,770 for the purchase of new playground materials, construction began after July 1, 2005. The loan will be repaid in three equal payments of \$42,590 principal plus applicable interest annually beginning in June 2006. The annual interest rate is 4.1071%. Payments of \$46,088 and \$44,339 are due in fiscal year 2007 and 2008 respectively.

## Required Supplementary Information

**MALVERN COMMUNITY SCHOOL DISTRICT**

Budgetary Comparison Schedule of Revenues, Expenditures and Changes in Balances -  
Budget and Actual - All Governmental Funds and Proprietary Fund

Required Supplementary Information

Year ended June 30, 2006

	Governmental Fund Types	Proprietary Fund Type	Total	Budgeted Amounts		Final to Actual
	Actual	Actual	Actual	Original	Final	Variance -
	\$	\$	\$	\$	\$	\$
Revenues:						
Local sources	1,646,953	77,948	1,724,901	1,710,743	1,710,743	14,158
State sources	1,746,407	1,933	1,748,340	1,858,239	1,858,239	(109,899)
Federal sources	308,270	72,231	380,501	225,000	225,000	155,501
Total revenues	<u>3,701,630</u>	<u>152,112</u>	<u>3,853,742</u>	<u>3,793,982</u>	<u>3,793,982</u>	<u>59,760</u>
Expenditures:						
Instruction	2,127,764	-	2,127,764	2,831,013	2,631,013	503,249
Support services	1,132,036	-	1,132,036	1,183,770	1,283,770	151,734
Non-instructional programs	-	165,467	165,467	369,374	369,374	203,907
Other expenditures	582,133	-	582,133	302,449	402,374	(179,759)
Total expenditures	<u>3,841,933</u>	<u>165,467</u>	<u>4,007,400</u>	<u>4,686,606</u>	<u>4,686,531</u>	<u>679,131</u>
Excess (deficiency) of revenues over (under) expenditures	(140,303)	(13,355)	(153,658)	(892,624)	(892,549)	738,891
Other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(140,303)	(13,355)	(153,658)	(892,624)	(892,549)	738,891
Balance beginning of year	<u>974,130</u>	<u>24,153</u>	<u>998,283</u>	<u>940,897</u>	<u>940,897</u>	<u>57,386</u>
Balance end of year	<u><u>833,827</u></u>	<u><u>10,798</u></u>	<u><u>844,625</u></u>	<u><u>48,273</u></u>	<u><u>48,348</u></u>	<u><u>796,277</u></u>

See accompanying independent auditor's report.

**MALVERN COMMUNITY SCHOOL DISTRICT**

**Notes to Required Supplementary Information - Budgetary Reporting**

Year ended June 30, 2006

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standard Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on a GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District adopted one budget amendment decreasing budgeted expenditures by \$75.

During the year ended June 30, 2006, expenditures exceeded the amount budgeted in the other expenditures functions. The District did not exceed the General Fund unspent authorized budget.

Other Supplementary Information

## MALVERN COMMUNITY SCHOOL DISTRICT

Combining Balance Sheet  
Nonmajor Special Revenue Funds

June 30, 2006

	Management	Student Activity	Total
	\$	\$	\$
<b>Assets</b>			
Cash and pooled investments	116,671	27,302	143,973
Property tax receivable:			
Current year	1,286	-	1,286
Succeeding year	55,000	-	55,000
Other receivables	-	60	60
Prepaid expenses	-	-	-
<b>Total assets</b>	<u>172,957</u>	<u>27,362</u>	<u>200,319</u>
<b>Liabilities and Fund Balance</b>			
Liabilities:			
Accounts payable	-	184	184
Deferred revenue:			
Succeeding year property tax	55,000	-	55,000
	<u>55,000</u>	<u>184</u>	<u>55,184</u>
Fund balance:			
Unreserved fund balance	117,957	27,178	145,135
	<u>117,957</u>	<u>27,178</u>	<u>145,135</u>
<b>Total liabilities and fund balances</b>	<u>172,957</u>	<u>27,362</u>	<u>200,319</u>

See accompanying independent auditor's report.

## MALVERN COMMUNITY SCHOOL DISTRICT

Combining Schedule of Revenues, Expenditures  
and Changes in Fund Balances  
Nonmajor Special Revenue Funds

Year ended June 30, 2006

	Management	Student Activity	Total
	\$	\$	\$
Revenues:			
Local sources:			
Local tax	54,564	-	54,564
Other	9,435	69,931	79,366
State sources	36	-	36
Total revenues	<u>64,035</u>	<u>69,931</u>	<u>133,966</u>
Expenditures:			
Instruction:	2,790	75,085	77,875
Support services:			
Student support services	-	-	-
Administrative services	-	-	-
Plant operation and maintenance	49,309	-	49,309
Student transportation	796	-	796
Total expenditures	<u>52,895</u>	<u>75,085</u>	<u>127,980</u>
Excess of revenues over expenditures	11,140	(5,154)	5,986
Fund balances beginning of year	<u>106,817</u>	<u>32,332</u>	<u>139,149</u>
Balance end of year	<u><u>117,957</u></u>	<u><u>27,178</u></u>	<u><u>145,135</u></u>

See accompanying independent auditor's report.

## MALVERN COMMUNITY SCHOOL DISTRICT

## Schedule of Changes in Special Revenue, Student Activity Accounts

Year ended June 30, 2006

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
	\$	\$	\$	\$
Vocal Music	35	144	144	35
Instrumental Music	205	198	235	168
Athletics	6,667	26,123	29,918	2,872
National Honor Society	77	252	84	245
Speech Club	42	628	288	382
Spanish Club	372	-	-	372
Annual	2,587	3,750	2,750	3,587
Art Club	296	48	88	256
Concessions	9,060	12,668	13,675	8,053
Panther Den	503	114	162	455
Cheerleading	245	633	407	471
JH Math/Science Club	553	-	-	553
FCCLA	435	3,988	4,032	391
Drama	300	111	291	120
Library Club	393	-	176	217
Weight Club	204	-	-	204
Class of 2007	3,789	4,695	6,314	2,170
Class of 2008	389	3,158	1,519	2,028
Class of 2009	475	-	30	445
Class of 2010	788	-	462	326
Class of 2006	924	540	1,374	90
Class of 2011	-	310	-	310
Class of 2005	(13)	14	1	-
Revolving	886	4,137	3,630	1,393
Shop	54	-	14	40
Student Council	1,120	100	1,142	78
Science Club	28	-	-	28
Chantry Activity	1,392	3,437	3,305	1,524
Chantry Library	258	4,781	5,044	(5)
Chantry Reading	268	102	-	370
Totals	<u>32,332</u>	<u>69,931</u>	<u>75,085</u>	<u>27,178</u>

See accompanying independent auditor's report.



## MALVERN COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Fiduciary Assets and Liabilities  
Agency Fund

Year ended June 30, 2006

Account	Balance Beginning of Year	Additions	Deductions	Balance End of Year
	\$	\$	\$	\$
Education Services	4,202	1,279	664	4,817
Picture Commissions	62	-	-	62
HS Employees	1,773	-	-	1,773
Outdoor Classroom	1,648	-	882	766
Cash for Schools	5,884	2,447	4,152	4,179
Costello Music Award	1,005	-	-	1,005
	<u>14,574</u>	<u>3,726</u>	<u>5,698</u>	<u>12,602</u>

See accompanying independent auditor's report.

## MALVERN COMMUNITY SCHOOL DISTRICT

## Comparison of Taxes and Intergovernmental Revenues

All Funds

For the Last Four Years

	Modified Accrual Basis			
	2006	2005	2004	2003
	\$			
Local sources:				
General	901,251	883,235	998,914	1,019,462
Special revenue/debt service	207,148	211,709	224,338	200,273
Capital projects	267,714	99,978	26,980	-
	<u>1,376,113</u>	<u>1,194,922</u>	<u>1,250,232</u>	<u>1,219,735</u>
State sources:				
General	1,746,323	1,613,793	1,593,327	1,492,304
Special revenue/debt service	84	93	96	86
School nutrition	1,933	2,199	2,256	2,392
	<u>1,748,340</u>	<u>1,616,085</u>	<u>1,595,679</u>	<u>1,494,782</u>
Federal sources:				
General	308,270	190,316	134,211	151,944
Special revenue	-	-	-	24,970
School nutrition	72,231	67,080	73,988	70,262
	<u>380,501</u>	<u>257,396</u>	<u>208,199</u>	<u>247,176</u>
Total	<u>3,504,954</u>	<u>3,068,403</u>	<u>3,054,110</u>	<u>2,961,693</u>

See accompanying independent auditor's report.

**Independent Auditor's Report on Internal Control over Financial  
Reporting and on Compliance and Other Matters  
Based on an Audit of Financial Statements Performed in  
Accordance with Government Auditing Standards**

To the Board of Education of the  
Malvern Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the Malvern Community School District as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated September 28, 2006. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Malvern Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item 06-I-A is a material weakness.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Malvern Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed immaterial instances of non-compliance or other matters that are required to be reported under Government Auditing Standards.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Malvern Community School District and other parties to whom Malvern Community School District may report, including federal awarding agencies and pass through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Malvern Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

**BRUCE D. FRINK**  
**Certified Public Accountant**

September 28, 2006

MALVERN COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2006

**Part I: Findings Related to the Financial Statements:**

**INSTANCES OF NON-COMPLIANCE:**

No matters were reported.

**REPORTABLE CONDITIONS:**

06-I-A      Segregation of Duties - During our review of the internal control structure, the existing procedures are evaluated in order to determine that incompatible duties, from a control standpoint, are not performed by the same employee. This segregation of duties helps to prevent losses from employee error or dishonesty and therefore maximizes the accuracy of the District's financial statements. We noted that one individual has custody of receipts and performs all record-keeping and reconciling functions for the office.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the District should review the operating procedures of the office to obtain the maximum internal control possible under the circumstances.

Response - We will review procedures and investigate available alternatives.

Conclusion - Response acknowledged.

**Part II: Other Findings Related to Required Statutory Reporting:**

06-II-A      Official Depositories - Official depositories have been approved by the District. The maximum deposit amounts approved were not exceeded during the year ended June 30, 2006.

06-II-B      Certified Budget - Expenditures for the year ended June 30, 2006, exceeded the certified budget amount in the other expenditures function.

Recommendation - The certified budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before expenditures were allowed to exceed the budget.

Response - Future budgets will be amended in sufficient amounts to ensure the certified budget is not exceeded.

Conclusion - Response accepted.

06-II-C      Questionable Expenditures - No expenditures that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.

06-II-D      Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

MALVERN COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2006

**Part II: Other Findings Related to Required Statutory Reporting:**  
**(continued):**

- 06-II-E      Business Transactions - No business transactions between the District and District officials or employees were noted.
- 06-II-F      Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- 06-II-G      Board Minutes - No transactions requiring Board approval which had not been approved by the Board were noted.
- 06-II-H      Deposits and Investments - No instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy were noted.
- 06-II-I      Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.
- 06-II-J      Certified Enrollment - No variances in the basic enrollment data certified to the Department of Education were noted.